

Message Text

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PAGE 01 OECD P 09341 01 OF 02 172108Z

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ACTION EUR-25

INFO OCT-01 ISO-00 AID-20 CEA-02 CIAE-00 COME-00 EB-11

EA-11 FRB-02 INR-10 IO-14 NEA-10 NSAE-00 RSC-01

OPIC-12 SP-03 TRSE-00 CIEP-02 LAB-06 SIL-01 SWF-02

OMB-01 FEA-02 INT-08 SCI-06 SS-20 NSC-07 DRC-01 /178 W
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R 172039Z APR 74

FM USMISSION OECD PARIS

TO SECSTATE WASH DC 2399

INFO AMEMBASSY BONN

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E.O. 11652: N/A

TAGS: ECON, EFIN, OECD

SUBJECT: EDRC ANNUAL REVIEW OF GERMANY, APRIL 25

REF: EDR(74)10

1. SUMMARY: SECRETARIAT DRAFT SURVEY (REFDOC) STATES RECOVERY IN GERMAN ECONOMY IS UNDERWAY, BUT IT IS SURROUNDED BY UNCERTAINTIES AND MAY TURN OUT BE WEAK. IT SUGGESTS AUTHORITIES WAIT UNTIL EARLY SUMMER BEFORE MAKING FURTHER POLICY DECISIONS. CONSUMER PRICES LIKELY RISE 10 PERCENT THIS YEAR, AND CURRENT ACCOUNT COULD MOVE TO EQUILIBRIUM DURING YEAR. ACTION REQUESTED: COMMENTS ON REFDOC AND GUIDANCE FROM WASHINGTON. END SUMMARY.

2. ECONOMIC AND DEVELOPMENT REVIEW COMMITTEE WILL REVIEW GERMAN ECONOMY ON APRIL 25. US AND ITALY ARE EXAMINING COUNTRIES. DRAFT ECONOMIC SURVEY OF SECRETARIAT (REFDOC) WAS AIR POUCHED WASHINGTON AND BONN, APRIL 11. IT DISCUSSES SALIENT FEATURES OF PRE OIL CRISIS, FOREIGN TRADE DEVELOPMENTS, ECONOMIC RE-

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PAGE 02 OECD P 09341 01 OF 02 172108Z

PERCUSSIONS OF OIL PRICE RISE, AND RECENT TRENDS AND

SHORT-TERM PROSPECTS. SURVEY ALSO EXAMINES WHY GERMANY HAS BEEN MORE SUCCESSFUL THAN MOST OTHER OECD MEMBERS IN MODERATING 1972/1973 DEMAND BOOM AND PRICE-WAGE SPIRAL, AND WHY, DESPITE SUCCESSIVE REVALUATIONS OF DM, GERMANY HAD ALL-TIME HIGH EXTERNAL SURPLUS IN 1973.

3. SURVEY NOTES THAT GERMAN ECONOMY HAS ABSORBED INITIAL EFFECTS OF OIL CRISIS SMOOTHLY, AND ACTIVITY (APART FROM AUTO SECTOR) HAS HELD UP BETTER THAN EXPECTED. IT ATTRIBUTES THIS FAVORABLE OUTCOME TO PRONOUNCED RE-ORIENTATION OF FISCAL POLICIES. PRICES AND WAGES DURING EARLY MONTHS 1974 BEGAN TO REFLECT NEW OIL SITUATION, BUT COST PRESSURES ARE EXPECTED BE EASED SOMEWHAT BY TAX RELIEF AND ANTICIPATED RISE IN PRODUCTIVITY OF 3-1/2 TO 4 PERCENT. NEVERTHELESS CONSUMER PRICES LIKELY RISE 1974 OVER 1973 BY 9 TO 10 PERCENT. SECRETARIAT NOTES CYCLICAL WEAKNESS OF DOMESTIC DEMAND HAS NOT YET BEEN ENTIRELY OVERCOME, BUT BUSINESS FIXED INVESTMENT IS LIKELY TO TURN UP IN SECOND HALF 1974, ALTHOUGH ITS STRENGTH IS UNCERTAIN. BUOYANCY OF EXPORTS AND RECOVERY IN PUBLIC CONSTRUCTION WILL BE IMPORTANT THIS RESPECT, PARTICULARLY IN FACE OF WEAKENING FACTORS IN OTHER SECTORS, SUCH AS RESIDENTIAL CONSTRUCTION. REAL CONSUMER SPENDING EXPECTED PICK UP BY ONLY ONE PERCENT THIS YEAR. EXPORT MARKETS MAY NOT GROW OVER 8 PERCENT, SOME 3 PERCENT LESS THAN PRE-OIL FORECAST, AND GROWTH GERMAN EXPORT VOLUME THEREFORE NOT LIKELY EXCEED 7 PERCENT IN 1974, WITH SOME DECELERATION IN SECOND HALF YEAR. SURPLUS ON GOODS AND SERVICES MAY BE REDUCED BY \$6.5 BILLION (17 BIL DM), AND CURRENT ACCOUNT COULD MOVE INTO BALANCE IN COURSE OF YEAR. TOTAL OUTPUT EXPECTED GROW SLOWLY FIRST HALF 1974,

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PAGE 01 OECD P 09341 02 OF 02 172107Z

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WITH ACCELERATION IN SECOND HALF YEAR TO NOT FAR BELOW CAPACITY RATE. SECRETARIAT UNDERLINES UNCERTAINTIES IN MAKING PRESENT FORECAST AND ADVISES READERS OF SURVEY NOT ATTACH TOO MUCH IMPORTANCE TO QUANTITATIVE PRECISION SUGGESTED BY FIGURES IN DEMAND-OUTPUT TABLE.

4. SURVEY CONCLUDES DEMAND MANAGEMENT WILL HAVE IMPORTANT ROLE TO PLAY IN ANTI-INFLATION POLICY, BUT QUESTIONS WHETHER INCREASE IN PRESENT DEGREE OF SLACK WOULD BE USEFUL. COURSE OF WAGES AND SALARIES WILL BE DECISIVE FACTOR IN RATE OF INFLATION, AND TO AVOID EXAGGERATION FUTURE RATE INFLATION, SECRETARIAT SUGGESTS SEVERAL WAYS COUNTER INFLATIONARY EXPECTATIONS TRADE UNIONS BUILD INTO THEIR NEGOTIATION POSITIONS. SURVEY SUGGESTS FROM INTERNATIONAL POINT OF VIEW RESUMPTION OF GROWTH SHOULD BE RESULT OF STRONGER DOMESTIC DEMAND RATHER THAN STRONGER EXPORT GROWTH. IN VIEW OF UNCERTAIN AND POSSIBLY WEAK UPTURN IN ECONOMY, THE ADOPTION OF FURTHER RESTRICTIVE MEASURES WOULD BE UNDESIRABLE. DUE TO UNCERTAINTIES, IT MIGHT ALSO BE UNWISE STIMULATE ECONOMY NOW. SECRETARIAT LIMITED OFFICIAL USE

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PAGE 02 OECD P 09341 02 OF 02 172107Z

THUS SUGGESTS IT WOULD BE BEST TO WAIT UNTIL EARLY SUMMER, WHEN DEMAND TREND MORE EVIDENT, TO MAKE ANY FURTHER POLICY DECISIONS.

5. ACTION REQUESTED: SINCE US IS AN EXAMINING COUNTRY, WE WOULD APPRECIATE COMMENTS ON REFDOC AND ANY GUIDANCE INTERESTED WASHINGTON AGENCIES CONSIDER NECESSARY. WE ARE GLAD TO HEAR THAT ED HERMBERG WILL REPRESENT EMBASSY BONN AT REVIEW. BROWN

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